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RHEFDIA/DIA WASHDC PRIORITY

RUEANQT/FINCEN VIENNA VA PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RHMFIISS/HQ USAFRICOM STUTTGART GE PRIORITY

RUEHLMC/MCC WASHDC PRIORITY

RHMFIISS/HQ USEUCOM VAIHINGEN GE PRIORITY

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C O N F I D E N T I A L SECTION 01 OF 05 DAKAR 001140

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TREASURY FOR OTA RHALL, DPETERS

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E.O. 12958: DECL: 09/30/2028

TAGS: FFIN KCOR PGOV PREL FAID ECON SG

SUBJECT: INVESTIGATING SENEGAL'S BUDGET BLACKHOLE

REF: A. DAKAR 1046

1B. DAKAR 1011

1C. DAKAR 661

1D. DAKAR 675

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Classified By: AMBASSADOR MARCIA S. BERNICAT, FOR REASON 1.4 (B) AND (D).

11. (C) Summary: A special investigative IMF team came to Senegal to look into a budget crisis caused by revelations of massive extra-budgetary commitments. To bring back even a semblance of balance, the government must cut USD 240 million in expenditures and raise USD 360 million. The IMF does not know the scope of irregular budget payments nor the total stock of unpaid bills. Discussions on the situation and an action plan will continue at the annual IMF meetings in October and during the second PSI review mission to Senegal later in the month. The IMF has stated the situation is serious, but many donors want to see a stronger public statement, and perhaps even encouragement for corruption investigations. Contacts continue to note the central role played by President Abdoulaye Wade's son, Karim, in the illegal payments, but the IMF Resrep also hopes Karim can be part of the solution. Some donors are holding off on disbursing budget support pledges until they are fully convinced by both the IMF and the government that effective public finance reform is being instituted. End summary.

IMF MISSION IS LOOKING FOR INFORMATION . . .

12. (SBU) Following revelations of massive extra-budgetary commitments and an ever-growing stock of unpaid bills, which led to the August 7 firing of Senegal's Budget Minister (Ref A), the IMF sent a special assessment team to Senegal to attempt to gain a handle on the true extent of the country's financial difficulties and misuse of budget resources. On September 22, at the end of a one-week effort, IMF Mission

Director Johannes Mueller briefed a roomful of worried diplomatic and agency chiefs of mission. He described Senegal's current situation as "very difficult," largely due to the huge amount of "illegal expenditures" that have called into question the integrity of the country's budgetary system. Mueller also noted that the massive stock of unpaid bills were "strangling the private sector" and having a negative impact on commercial bank liquidity and economic fundamentals. He said the IMF is ready to lower its estimate for GDP growth in Senegal in 2008 from 4.8 to 4.3 percent and noted an increase of the balance of payments deficit to 11.2 percent and the current budget deficit to 5.5 percent of GDP.

¶3. (SBU) In Mueller's estimation, the Finance Minister and others were "surprised" by the scope of Senegal's budget problems, but that they seem prepared to take difficult steps to address the current crisis, including an agreement to cut CFA 100 billion of expenditures in the near term. (Though it is not yet clear how these cuts will be made, Mueller and IMF Senegal Resrep Alex Segura stated that the MinFin pledged to not cut key social services, such as education and health.)

. . . BUT DOESN'T HAVE ANSWERS

¶4. (SBU) Mueller admitted that the IMF, and probably the MinFin, don't know how much the total stock of arrears could be -- no doubt more than CFA 150 billion (USD 350 million), and he was not willing to refute the possibility that it could top CFA 400 billion. They also don't know the full scope of the illegal treasury advances that were signed by Sarr or previous Budget Ministers, including current Prime Minister Soumare. Some MOF contacts have claimed that

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neither former Minister Sarr, nor the Ministries most implicated were willing to be forthright with the investigators. These contacts do not believe the IMF yet comprehends the scope of the problem or understands the political networks which have enabled these illegal expenditures.

THE FINANCE MINISTER ASKS FOR HELP

¶5. (C) Prior to Mueller's briefing to the donors, Finance Minister Abdoulaye Diop requested that the Ambassador, a few of her colleagues, Mueller and Segura meet him. Diop pleaded for patience, outlined some of the steps that he was trying to implement in the near-term, and requested that donors fulfill their budget support pledges as soon as possible.

SPEAK THE TRUTH -- IT'S CORRUPTION

¶6. (SBU) During the outbrief with Donors, there was clear frustration that the IMF was not going to take a stronger public line on the government's actions, even after it was clear that Budget Ministry officials had hid the true scope of the arrears in the run-up to the PSI agreement. In its press release, the IMF noted the seriousness of the situation, but appreciated the government's "openness and good cooperation."

¶7. (SBU) The head of UNODC's Regional office for Central and West Africa, Antonio Mazzitelli, pointedly asked what was on everybody's mind -- why does the IMF insist on kindly referring to these illegal expenditures as "dépassement budgétaire" -- that is, overstepping? Mazzitelli stated that it is time to call this what it is -- corruption. The IMF's response was unsatisfactory to everybody in attendance when they claimed that the IMF "couldn't comment" in such a manner, and that the Mission was only able to take a "technical approach" through observations, not judgment. The obvious problem with this approach, at least to those around the table who have been hearing about the IMF's efforts to rein in the government's leakage of official funds for more than a year, is that it is only the IMF that has access to

the pertinent documents and people (or at least some of them) that demonstrate the clear misuse of government funds -- and so far the IMF is not sharing.

18. (SBU) Nobody expected Mueller to say outright that it is corruption, but clearly there was an expectation that the IMF might support serious and comprehensive investigations. To his credit, however, when pressed on what the donors should think about the GOS's long-running shell game, Mueller stated that if the final results of the audit are "serious enough" the donors should consider a "change in relations" (approach) for Senegal.

THE STEPS TO TAKE

19. (C) On the fiscal side, the Finance Minister has created an "action plan," apparently in consultation with Karim Wade, and hence, the Presidency. Under this plan, the government is to cut CFA 100 billion (USD 240 million) before the end of the year. Senegal also needs new infusions of money -- a minimum of CFA 150 billion (USD 360 million). However, the local commercial markets are almost tapped out and any regional Treasury bond offering would be difficult given how low Senegal's fiscal credibility is currently. There are plenty of rumors that Senegal will go ahead with the sale of its Sonatel shares, which could generate up to USD 1 billion. However, without real transparency in such a step, donor confidence would not necessarily be improved. The action plan notes that the GOS might sell the Meridien Hotel, Senegal's most valuable commercial property. One contact at

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the Ministry of Finance familiar with this effort claims that an unnamed Arab investor has offered the extremely low-ball price of USD 50 million; about what the Bin Laden Group recently spent to renovate the hotel prior to last March's OIC summit.

WHERE WILL THE MONEY COME FROM?

10. (C) Local commercial, regional, and international markets are not promising. The regional bond market is viewed as exhausted at this time, and local banks have lost most of their liquidity in helping firms cover the GOS arrears. According to one senior MinFin official, they are trying to "work around" the PSI-imposed restrictions on non-concessional foreign borrowing by negotiating a "relay loan" whereby the GOS would help a local bank negotiate financing from foreign bank and then use that money for new credit to the GOS. The official admitted that this arrangement might be troubling to the IMF, but he was hopeful Segura and Mueller would "turn a blind eye." There has also been some troubling speculation that the government will start strong-arming the private sector, with rumors stating that the government will demand that Sonatel/Tigo renegotiate 2002 mobile phone license.

THE RESREP'S INSIDER'S VIEW; KARIM WADE'S ROLE

11. (C) The day before the mission arrived, Ambassador met with Alex Segura, the IMF Resrep for Senegal. According to Segura, Karim Wade now operates as a de facto executive vice president and is intimately involved in all policy decisions. If he is convinced of something, he can have great influence on his father. If his father is the first one to hear of an issue, he will generally consult with Karim before taking any action. However, Segura is not sure what to think about Karim's intentions. He hears much about his supposed influence in the government and on deals, but also views him as a smart guy who understands economics and can be persuaded. According to Segura, the Karim-led Islamic Conference organizing agency's (ANOCI) direct role in the extra-budgetary commitments was fairly small, with only CFA 4 billion out of the CFA 60 billion identified for work for the Summit going directly to ANOCI.

¶12. (C) Segura, who has developed a good working relationship with Karim, elaborated on Karim's influence in the government and his role in requesting payments from the former Budget Minister. After Sarr's dismissal, Segura believes that Karim is now starting to consult with the Finance Minister and has, so far, played a positive role in drafting the "action plan." Segura viewed this cooperation positively, and expressed the hope that Karim's business and finance background would "kick-in" with the realization that true fiscal adjustment needed to happen.

WADE TAKES ACTION RELUCTANTLY, THEATRICALLY

¶13. (C) Segura said that after the July audit brought to light the huge problem of extra-budgetary commitments, he met with President Wade almost on a daily basis. Wade apparently went through the full "five stages" of loss, starting by denying that the problem (until Segura showed him copies of 80 illegal payment commitments), to anger, "O.K. I'll throw them all out!" and finally, to acceptance, leading to the recognition that he was facing a serious problem thus the firing of then-Budget Minister Sarr. Segura reported that he constantly had to sidestep Wade's requests for advice on personnel matters, such as on who needs to be fired.

FORMER BUDGET MINISTER WAS IN DEEP

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¶14. (C) Segura made no bones that former Budget Minister Sarr was intimately implicated in the budget abuse, stating that it was clear that Sarr had lied to the IMF on a number of occasions. During the negotiations for Senegal's PSI program, Sarr hugely under-reported the estimate of the government's unpaid bills. In another instance, Sarr provided a signed document indicating the volume of extra-budgetary commitments, which is probably no more than ten percent of the actual amount that Sarr approved. Segura was able to obtain documents of more than 80 illegal funding commitments signed by Sarr. In all, at least 15 ministries and a number of national agencies received illegal funds, or commitments. Ministry of Finance contacts have told us that the Ministry of Infrastructure was the largest recipient of these irregular obligations, which, in turn, directly implicates President Wade, Karim and APIX, who are the driving forces behind the country's special infrastructure projects. Segura also explained that Sarr had lied to him in May, when Sarr claimed he had not signed the non-transparent, likely illegal, contract for the evaluation of the GOS's shares in Sonatel (Ref D), when copies of the document that Segura obtained were, in fact, signed by Sarr.

¶15. (C) Perhaps most damning, and in our mind criminal, Segura told the Ambassador that GOS software for tracking expenditures had been manipulated in an attempt to cover-up some of these payments. Segura believes that Sarr's network was responsible. The hacking efforts were not entirely effective, however, resulting in unexplained problems with account reconciliation, which is what tipped off the investigators. Segura described Sarr as serving "two poles of power," Prime Minister Soumara and Karim Wade. Sarr has been a close associate of Karim's for many years. Segura reported hearing that at one point that Karim tried to get Sarr named as Finance Minister. On the other side, when Soumara was Budget Minister, Sarr was one of his most trusted deputies.

WHO TO TRUST

¶16. (C) Ambassador asked Segura if he had confidence in the Finance Minister Diop, and the new Budget Minister, Abdoulaye Sow. In Segura's opinion, Diop is honest and has been trying to "do the right thing." Segura noted that when he was asked to sign authorizations outside of the approved budget structure, he refused -- even personal requests by President Wade. However, once Ministries and contractors started

accepting pay orders signed by the Budget Minister, Diop was largely marginalized from control of the budget. Segura explained that Diop has been helpful in the IMF's efforts to fully understand Senegal's fiscal situation, and though Diop would not always volunteer information or offer incriminating documents, he would share when specifically asked, because he did not have the right to withhold information. Fortunately, according to Segura, Diop's "right hand man," Sogue Diarisso (protect) frequently told Segura what documents to ask for. Regarding the new Budget Minister, Segura also expressed confidence, describing Sow as a "prickly and arrogant guy," who nonetheless also provided valuable documents on the true (poor) state of Senegal's finances while serving as Director of the Treasury. In Segura's opinion, with 15 ministries involved in illegal contracts, the credibility of the entire government is called into question. Still, he says the IMF is willing to help, but will need to see much improved transparency and a true commitment to significant fiscal adjustment by the GOS. If, however, "new skeletons" come out, the IMF would likely withdraw from the PSI at the December board meeting.

APPROACHING A CRISIS FOR DONORS

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¶17. (C) The Wade administration is close to stepping over the cliff and losing all credibility for its fiscal management and seriousness as a development partner with the likely possibility that the PSI program with the IMF will be suspended in December. For France, Canada, Holland, the EU and some others who provide direct budget support, news of Senegal's budget tricks has reached capitals and pointed questions are being asked. The Dutch Ambassador confirmed that they will not fulfill their budget support pledge until after the next IMF review, and only if they are personally convinced that reform is taking place. France, Spain, Portugal and perhaps others are also under pressure from their national companies who, in some cases, have been waiting up to a year for payment on government contracts (though some of these contracts were undoubtedly illegal). Key Chiefs of Mission are working on a strategy to express to President Wade directly the high level of concern and the need for a positive and transparent response by the government. Unfortunately, we have already heard rumors that some in the President's circle are frustrated with and critical of the new Budget Minister for not signing more extra-budgetary obligations.

COMMENT

¶18. (C) Since we do not provide budget support, we are not as directly implicated as other donors, but some of our programs depend on GOS initial funding and a few American firms are among those who are not being paid. Probably Senegal will manage to overcome this current crisis, but it will take time, and the strongest political will, to reinforce sound public finance systems and establish transparency in the budget process. Until proven otherwise, we believe the Presidency will keep looking for ways to manipulate the system until they are again caught.

BERNICAT